GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note 2009 Biennium

Bill #	SB0549		**Title:**	Revise property tax classification criteria of certain agricultural land
Primary Sponsor:	Story, Bob		**Status:**	As Introduced

- ☐ Significant Local Gov Impact
- ☐ Needs to be included in HB 2
- ☑ Technical Concerns
- ☐ Included in the Executive Budget
- ☐ Significant Long-Term Impacts
- ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2008 Difference	FY 2009 Difference	FY 2010 Difference	FY 2011 Difference
Expenditures:				
General Fund	$0	$0	$0	$0
Revenue:				
General Fund	$0	$0	$0	$0
Net Impact-General Fund Balance	$0	$0	$0	$0

Description of fiscal impact:
The bill revises the method of classification of agricultural land requiring a minimum dollar amount of gross income from agricultural production or grazing for land to be qualified as agricultural land and or grazing land.

FISCAL ANALYSIS

Assumptions:

1. Historically, agricultural land eligibility was granted if the land was devoted to an agricultural use and produced $1,500 in agricultural related annual gross income. A recent decision by the State Tax Appeal Board (STAB) indicates that for land 20 acres or more but less than 160 acres current law may be vague. STAB's decision suggests that agricultural land eligibility should be granted based solely on an acknowledgment by the owner that the land is used agriculturally. The long standing practice of requiring $1,500 of annual gross income is not required under the decision.
2. Section 1(b)(i) of the bill amends 15-7-202, MCA, and requires that acreage of 20 acres or more but less than 160 acres be actively devoted to agricultural production. Production must not be less than $1,500 in annual gross income.
3. Section 1(3) of this bill amends 15-7-202, MCA, and adds a requirement that, in order to qualify as grazing land, acreage must be able to sustain sufficient animal unit months equating to a $1,500 annual

gross income. The required number of units is to be determined by the Montana State University-Bozeman Department of Agricultural economics.

4. Under this bill, the Department of Revenue's current practices of using agricultural production in the process of classifying land as either agricultural land or non-qualified agricultural land will continue.
5. This fiscal note assumes that all land currently classified as agricultural would have the sufficient revenues required to be classified as agricultural land and that the assessed value would not change. Therefore, passage of this bill would have no impact on property tax revenues.
6. If the bill is not passed, all lands and home sites associated with Class 3 non-qualified agricultural land could potentially be classified as agricultural land (See technical notes for estimated impact).

Technical Notes:

1. If the bill does not pass, lands currently classified as Class 3 non-qualified agricultural land that failed to meet the established agricultural production income requirement of $1,500 will be classified as agricultural land based simply on the verification by the owner that the land is used for agricultural purposes.
2. Under current law, the applicable tax rate for non-qualified agricultural land was 21.98% in tax year 2006. Land eligible for classification as agricultural land was taxed at 3.14% in tax year 2006. For tax year 2006, the 960,390 acres of non-exempt, non-qualified agricultural land had an assessed value of $41,559,818 and a taxable value of $9,135,891. If the land had been taxed as agricultural or grazing land at 3.14%, the taxable value would be $1,304,978.
3. One-acre home-sites on non-qualified agricultural land are valued at market value. One-acre home-sites on agricultural land are valued according to the highest productive value and production capacity of agricultural land. For tax year 2006, that per acre value was $863.19. For tax year 2006, the tax rate for both was 3.14%. For tax year 2006, the total market value of the estimated 13,692 non-exempt, non-qualified agricultural land home-sites was $173,790,550 with a taxable value of $5,456,721. If the home-sites were taxed as agricultural land, the taxable value would be $371,106.
4. Because the value of the one-acre homes-sites on non-qualified agricultural land is a market driven value, the home-site values for non-qualified agricultural land, under HJR 2, are expected to increase in value by a growth rate of 4.1% in tax year 2007 and 4.2% in tax year 2008 and beyond. Non-qualified agricultural land is not valued based on the market value. The value for non-qualified agricultural land is statutorily set based on the value of the most common grade of grazing land. The value of non-qualified agricultural land is not expected to increase so no growth rate is used to determine future impacts.
5. Agricultural land, under HJR 2, is not expected to increase in value so no growth rate is used in projecting the impact on state revenues over the biennium.
6. The taxable value for non-qualified agricultural land was $7,830,913 in tax year 2006. The taxable value of one-acre home-sites on non-qualified agricultural land was $5,085,615 in tax year 2006. The combined taxable value of these types of property will be:
    - $13,125,038 (($7,830,913) + ($5,085,615 x 1.041) in tax year 2007
    - $13,347,391 (($7,830,913) + ($5,294,125 x 1.042) in tax year 2008
    - $13,579,084 (($7,830,913) + ($5,546,178 x 1.042) in tax year 2009
    - $13,820,507 (($7,830,913) + ($5,748,171 x 1.042) in tax year 2010
7. If this bill does not pass all non-qualified land and home sites were classified as agricultural, the maximum general fund revenue loss will be:
   - $1,244,006 ($13,125,038 x 0.095) in FY 2008
   - $1,264,588 ($13,347,391 x 0.095) in FY 2009
   - $1,289,278 ($13,579,084 x 0.095) in FY 2010
   - $1,308,878 ($13,820,507 x 0.095) in FY 2011

8. The estimated maximum potential university 6 mill levy revenue loss will be:
   - $78,125 ($13,347,391 x 0.006) in FY 2008
   - $79,417 ($13,347,391 x 0.006) in FY 2009
   - $80,779 ($13,347,391 x 0.006) in FY 2010
   - $82,199 ($13,347,391 x 0.006) in FY 2011
9. Local mill levies grew at 4.3% from tax year 2000 to tax year 2006. This growth rate is projected to continue through tax year 2011. The average agricultural land mill levy was 463.41 in tax year 2006. For local governments and schools, failure to pass this bill could have a potential maximum revenue loss of:
   - $6,293,420 ($13,347,391 x 0.006 x (0.46341 x 1.043) in FY 2008
   - $6,672,645 ($13,347,391 x 0.006 x (0.46341 x 1.043 x 1.043) in FY 2009
   - $7,078,934 ($13,347,391 x 0.006 x (0.46341 x 1.043 x 1.043 x 1.043) in FY 2010
   - $7,513,057 ($13,347,391 x 0.006 x (0.46341 x 1.043 x 1.043 x 1.043 x 1.043) in FY 2011

Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*